Fixing Telecommunications

REPORT 2: DATA REPORT

Verizon's Manipulated Financial Accounting & the FCC's Big "Freeze"

December 10th, 2015

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EXHIBITS

1.0 Verizon NY, Inc. is the Incumbent Telecommunications State-Based Utility.

According to Verizon NY's 2014 Annual Report filed with the NY State Public Service Commission, the entity now known as Verizon New York started business in 1896.

> "(Verizon New York) was incorporated in New York State on June 18, 1896 under the Transportation Corporation Law."

And regardless of what Verizon and others may say, Verizon New York's primary business is as the New York State-based incumbent telecommunications utility. It is worth noting that it has had multiple incarnations over the last 120 years. Since 1984, the company has been called "New York Telephone", "NYNEX-New York", "Bell Atlantic-New York", and "Verizon New York". And it is a wholly own subsidiary of Verizon Communications, Inc, the holding company that controls the company's actions.

In 2010, Verizon Claims There Are Three Types of Telecommunications Service – Including FiOS TV.

This is from Verizon New York's SEC-Filed 2010 4th quarter report and this language appears in multiple years. And we note that almost identical language appears in Verizon's other state-based utility SEC reports, from Massachusetts to New Jersey

Verizon NY SEC 2010

We have one reportable segment which provides domestic wireline telecommunications services.

We currently provide three basic types of telecommunications services:

- *Exchange telecommunication service* is the transmission of telecommunications among customers located within a local calling area within a LATA. Examples of exchange telecommunications services include switched local residential and business services, local private line voice and data services and Centrex services. We also provide toll services within and outside both LATA (intraLATA and interLATA long distance).

- *Exchange access service* links a customer's premises and the transmission facilities of other telecommunications carriers, generally interLATA carriers. Examples of exchange access services include switched access and special access services.

- In addition, we also provide fiber-to-the-premises services, operated under the FiOS service mark (FiOS TV), for residential and small business subscribers in certain areas.

No SEC Reports Prepared Past the year 2010; No Audited Financials.

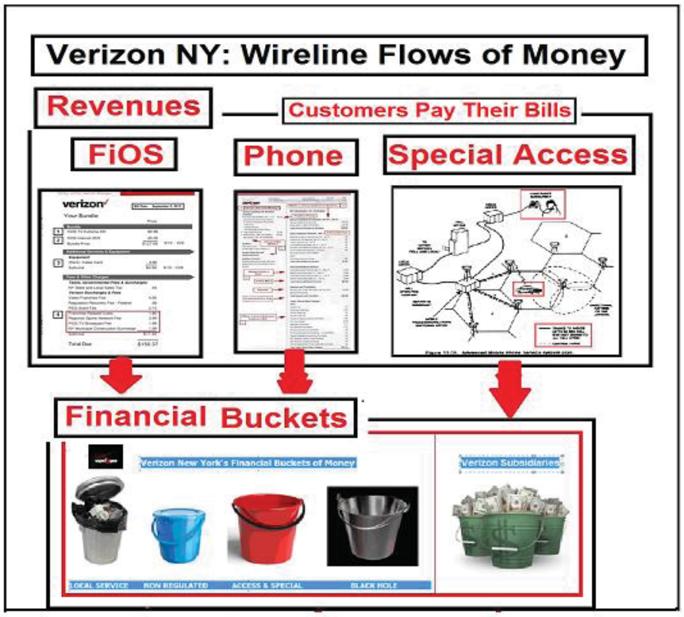
According to Verizon NY's 2014 Annual Report

> "Reports to stockholders or audited financial statements for Verizon New York, Inc. are not prepared."

How Did They Do It?

2.0 Examining Verizon New York's Revenues

EXHIBIT 1
Verizon NY Phone Bills to Financial Buckets



When a Verizon customer pays a phone bill or their Triple Play communications package of broadband, Internet, cable TV, and phone service, the money — revenue to Verizon, is then divided up among different financial "categories", which we refer to as 'buckets', and/or it can go into different Verizon subsidiaries, such as Verizon Wireless, Verizon Online or Verizon Long Distance, to name a few.

Traditionally, the largest revenues for Verizon New York were from local phone service. But over the last decade there has been major growth in other Verizon services such as FiOS, which is a group of services that ride on a fiber optic wire and include broadband, Internet, phone and even cable TV, as well as 'special access' services, which are the business broadband and data services, or even the wires that connect almost all cell sites and hot spots – as almost all wireless/mobile services eventually go back to a wire.

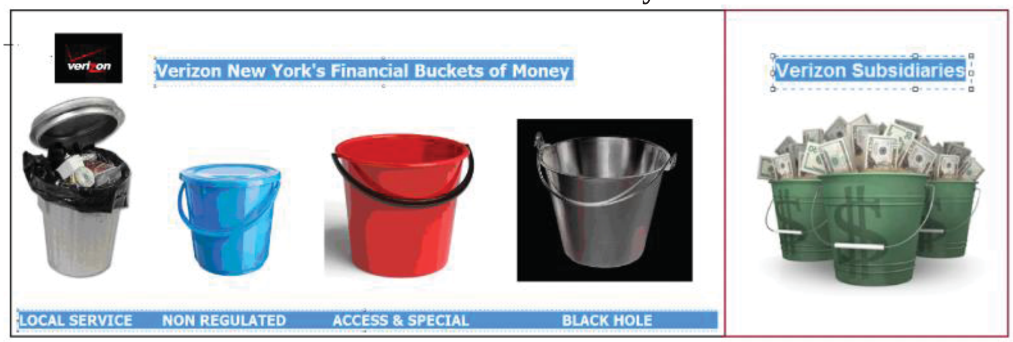
And all of these services that are offered by Verizon New York over the wires – copper or fiber – are part of the state-based utility networks, even though Verizon might claim that they are no longer a utility company.

And in the end, all of the revenues from services provided over these wires end up in different financial accounting categories, which we'll refer to as "buckets".

2.1 Financial Accounting Categories: "Buckets of Money"

As the revenue comes in from different services, they go into one of five financial areas.

EXHIBIT 2
Verizon New York's Financial Buckets of Money & Verizon Subsidiaries



Verizon NY's financial books have five areas ("Buckets") of revenue and expenses.

- **"Local Service"** — (sometimes referred to as "State" or "Intrastate") — This is mostly regular phone service.
- "**Network & Special Access"** (sometimes referred to as "Federal" or "Interstate" or just "Access") — These are the fees paid by companies and competitors to use the networks.
- "**Nonregulated"** — can be formerly regulated telecommunications services that are deregulated but related to local service, or other services that were never regulated.
- "**Black Hole" Revenues —** the fourth category, are additional revenues we uncovered that appeared in one set of financial books, Verizon NY's SEC-filed annual reports, but are left out of the state-based Verizon NY annual reports filed with the NY Public Service Commission.
- **"Verizon Subsidiaries" —** Verizon's other divisions/companies include Verizon Online, which handles the Internet service and equipment, Verizon Business, Verizon Wireless and Verizon Long Distance, for example.

NOTE: Other reports in this series address the revenues, black hole, and subsidiaries in detail.

The following exhibit highlights the revenues by year taken directly from Verizon NY's filed annual reports for 2003, 2010 and 2014, as well as the percentage in each category (except "black hole" revenues).

2.2 Verizon NY Revenue by Category, 2003-2014

EXHIBIT 3
Verizon NY Revenues, 2003, 2010, and 2014

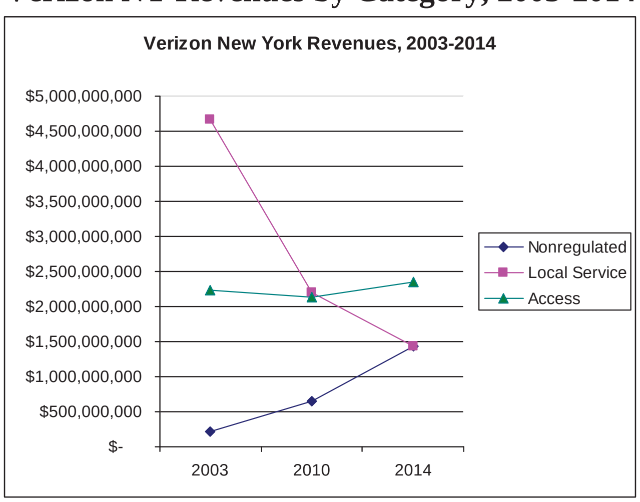
2003	Total	Nonregulated	Local Service	Access
Total Revenues	$7,148,203,639	$219,748,000	$4,666,839,000	$2,230,978,000
Percent of Revenue		3%	65%	31%
2010	$4,982,344,773	$ 657,117,766	$2,198,098,276	$2,127,128,731
		13.2%	44.1%	42.7%
2014	$5,230,477,636	$1,431,325,888	$1,441,591,799	$2,357,559,949
		27.0%	27.6%	45.0%

Sources: Verizon New York, New Networks Institute

This summary of the years 2003, 2010 and 2014 shows:

- In 2003, Verizon NY's regulated books showed $7.1 billion in revenues, which went down to $5.2 billion by 2014.
- In 2003, Local Service was 65% of the revenues, but by 2014, Local Service is only 27.6% of the revenues.
- Nonregulated services have increased from 3% of total revenues to 27%, from only $220 million in 2003 to $1.4 billion — a 550% increase.
- "Access" revenue in 2003 was based more on long distance access fees, but today it is about broadband and data services; Special Access, in particular, had an increase of 38% since 2009, as told by the Verizon New York Annual Reports. However, this does not include all of the special access service revenues, as discussed later and in our other reports

EXHIBIT 9
Verizon NY Revenues by Category, 2003-2014



2.3 Local Service

Let us be very specific, as this is going to impact our entire analysis.

Local Service is specifically the residential and business phone service, sometimes referred to as "POTS", "plain old telephone service", and it is part of the state utility and much of it is based on the old copper networks. It also includes the "calling features", including Call Waiting and Caller ID, and other related revenues.

This is part of the official FCC definition.[7]

> **"32.5001 Basic area revenue.**
>
> (a) This account shall include revenue derived from the provision of the following:
> (1) Basic area message services such as flat rate services and measured services. Included is revenue derived from non-optional extended area services. Also included is revenue derived from the billed or guaranteed portion of semi-public services.
>
> (2) Optional extended area service.
> (b) Revenue derived from charges for nonpublished number or additional and boldfaced listings in the alphabetical section of the company's telephone directories shall be included in account 5230, Directory revenue.
>
> **§ 32.5060 Other basic area revenue.** This account shall include:
>
> (a) Revenue from the provision of secondary features which are integrated with the telecommunications network such as call forwarding, call waiting and touch-tone line service. Also included is revenue derived from the provision of public announcement and other record message services, directory assistance and other call completion services (excluding operator assisted basic long distance calls).
>
> **§ 32.5081 End user revenue. – (This is also known as the FCC Subscriber Line Charge.)**
>
> (a) This account shall contain federally and state tariffed monthly flat rate charge assessed upon end users."

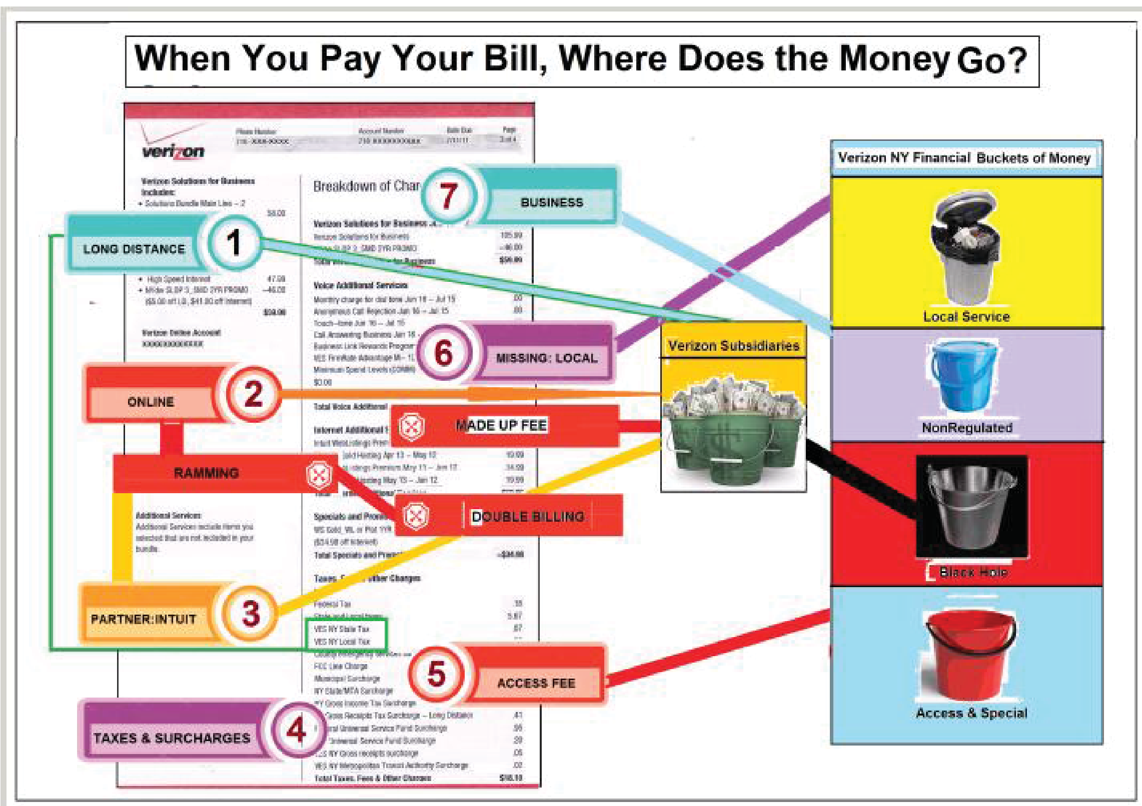
[7] http://www.hallikainen.org/FCC/FccRules/2014/32/5001/index.php

2.4 The Flows of Money from the Bill to the Buckets is Very Complicated

On this Verizon bill, which has DSL (a broadband service that uses the existing copper wires), as well as a local and long distance calling packages, there are multiple affiliate/subsidiary companies and different financial flows of money between and among these affiliates.

Verizon Long Distance gets a part of the calling plan for long distance, Verizon Online handles the Internet service and receives money for the service and any equipment. At this time, it is unclear whether Verizon Local Service receives any money from this customer as Verizon New York is not even represented on this Verizon New York customer's bill. Moreover, there are a host of regulatory issues that arise when DSL or a package of services are added to the line.

EXHIBIT 5
Tracking the Verizon Subsidiaries and Revenues on a Verizon NY Bill



Other reports in this series detail the communications bills and the flows of revenues and expenses.

2.5 There are a Host of Variables that Control the Flows of Revenues into These Buckets.

There are different state and federal rules and variables that control which bucket the revenues and expenses will end up in. Here is a summary of some of the variables.

- **There are "Intrastate" (within a state) and "Interstate" (crossing state boundary) distinctions.** A call or data service can be classified as "intrastate", meaning services within the state and under the New York State Public Service Commission's purview, and "Interstate" services that cross state lines and are regulated (or not) by the FCC. Thus, a long distance call and long distance service, which are interstate, can be offered through a separate subsidiary, and the revenues are not part of the state-based utility financial books.

- **NOTE: The application of taxes can also be determined by whether it is in-state or interstate.** There are a host of taxes, fees and surcharges that are impacted by the intrastate vs interstate distinctions. For example, the Universal Service Fund is a federal charge, though there is a state USF as well. State and Local taxes, local franchise fees, and a large collection of state-based excise taxes are determined by state and federal jurisdictions.

- **Regulated, Deregulated, Tariffed, Detariffed, or Forebeared —** The financial buckets take into account the regulatory construct the access line or service has been designated. For example, 'nonregulated' services can include services that were originally regulated, but have changed their classification.

- **"Information" Service (IP) vs "Telecommunications" (TDM) —** And all of this gets more complicated as the same wire can be classified differently depending on whether the services are classified as a 'telecommunications' service, which is referred to as "TDM" or sometimes "Title II", or an 'IP-based, (Internet Protocol-based) service'. Even if it is an old copper wire that originally carried basic phone service, (TDM, telecommunications service), the line can be moved into a different subsidiary if it is now used for "Information".

- **What is carried over the wire can change the regulatory treatment. —** Just to reinforce a point, today the exact same copper wire that was used for basic phone service and classified as a telecommunications service can change into an "information service" with entirely different regulatory requirements. One of the "IP Transition's goals by AT&T et al has been to use this legal shell game to remove of all telecommunications regulations and specific requirements, such as 'carrier of last resort', meaning the utility has to provide service in their franchise area. For example, VOIP, (Voice over Internet Protocol), does not have the same obligations as a regular phone service, even though they may be an identical product.

- **Special Access Business Services —** On the business side of this, there are ‘special access’ services, sometimes referred to as ‘backhaul’. These are services that can be sold as ‘retail’ services to a bank or hospital, or to wholesale users, which include companies renting ‘backhaul’, including competitive wireless companies. While a large chunk of this going into the ‘access’ bucket, the revenues can end up on the nonregulated books or in a separate subsidiary. There is no current tracking of any of the flows of revenues from special access today.

- **Utility, Public Switched Telephone Network (PSTN) vs Private Property —** Verizon New York is first and foremost the state-based utility, and it controls the critical infrastructure, sometimes referred to as the “PSTN”, “Public Switched Telephone Network”. However, the addition of different technology (TDM vs IP), or the addition of broadband, such as DSL, or the type of service, regardless of it being copper or fiber, can move the access line, and thus the revenue, into a different category and bucket.

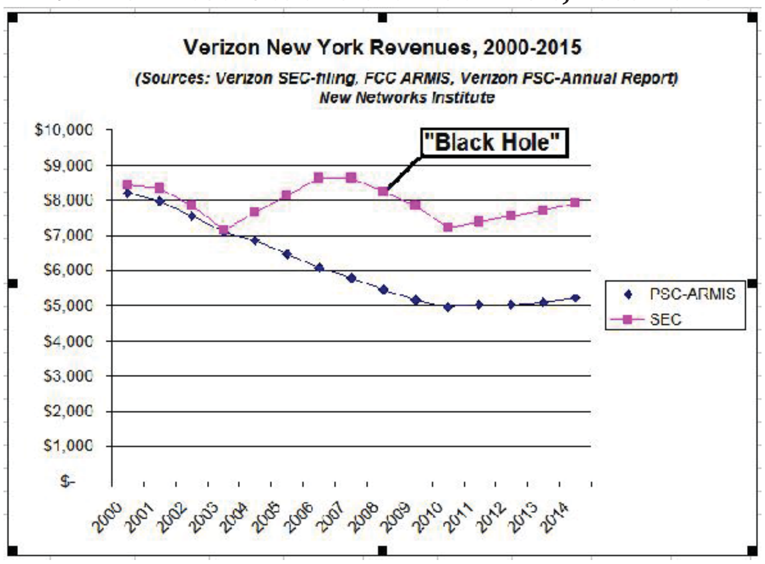
- **“Title Shopping”—** There are a host of subtleties about all of this as the companies have been able to play one regulatory agency off the other so that in the state, the fiber optic wire may be part of the telecommunications networks and within the same breath, it is an information service when the company is dealing with the FCC.

- **Net Neutrality Order and Other Regulatory Movement —** Some of this has also been put into play with the FCC’s Net Neutrality order, where the FCC placed the broadband and Internet service partially under Title II, a telecommunication service.

2.6 Black Hole Revenues

The following chart and exhibit are the revenues of Verizon New York, from 2000-2015. Notice that there are two separate lines; one is marked "Black Hole".

EXHIBIT 6
Verizon Revenues and the Black Hole, 2000-2015



This exhibit gives the actual revenues from 2000 through 2015, as told by different Verizon New York financials; (The highlighted numbers are estimates for the missing years, and our estimate for 2015.)

EXHIBIT 7
Verizon NY Revenues as Stated in Two Financial Books, 2000-2015

	2000	2001	2002	2003	2004	2005	2006	2007
PSC-ARMIS	$ 8,189	$ 7,990	$ 7,559	$ 7,091	$ 6,874	$ 6,475	$ 6,080	$ 5,768
SEC	$ 8,421	$ 8,340	$ 7,859	$ 7,148	**$ 7,638**	**$ 8,128**	$ 8,617	$ 8,617
Difference	$ 232	$ 350	$ 300	$ 57	**$ 764**	**$ 1,653**	$ 2,537	$ 2,849

2008	2009	2010	2011	2012	2013	2014	2015	Total
$ 5,472	$ 5,176	$ 4,982	$ 5,022	$ 5,039	$ 5,110	$ 5,230	**$ 5,302**	$ 97,359
$ 8,225	$ 7,840	$ 7,211	**$ 7,383**	**$ 7,455**	**$ 7,527**	**$ 7,600**	**$ 7,772**	$ 125,781
$ 2,753	$ 2,664	$ 2,229	**$ 2,361**	**$ 2,416**	**$ 2,417**	**$ 2,370**	**$ 2,470**	17.5%

Sources: Verizon SEC, PSC Annual Reports, New Networks Institute

Verizon has at least two sets of financial books. The first are the financial reports that are part of Verizon NY's Annual Reports which are required by the NY Public Service

Commission (NYPSC). These financials were also filed with the FCC as part of the state-based phone company data information published as part of the “Statistics of Common Carriers” reports. The FCC ended collecting and making public this information in 2007. The second set of books are from the company’s SEC filed-annual and quarterly reports. These reports stopped being made public in 2003, (but were published briefly 2008-2010, or at least those are the years that can be found online).

Back in 2010, we noticed a pattern — that the financial reports didn’t match and the SEC-filed books had $2.24 billion extra in revenues in just one year, 2010, and it was $2.664 billion in 2009.

We dubbed this extra revenue “Black Hole” because there is no explanation provided to what constitutes this difference.

In 2015, the NY Public Service Commission (NYPSC) started a proceeding that included an examination of the Connect NY Coalition’s petition that was filed in July 2014. It is based, in part, on our previous reports, including a discussion of this massive discrepancy.[8]

Verizon’s response, Oct 23rd, 2015, claims that this variance is based on different financial approaches to the accounting.[9]

> “In fact, this alleged discrepancy is based on the different approaches to accounting for revenues that are used in the two reports, as explained in Schedule 2b of Verizon’s Annual Report to the Commission for 2010, which reconciles the figures in the bondholder report and the Annual Report.
>
> “Far from being an unexplained discrepancy that creates ‘uncertain financial data,’ this difference was the fully-disclosed result of certain differences in accounting treatment.”

2.7 Neither Verizon NY’s Response or Their Explanation Addressed the $2.24 Billion Mismatch (Financial “Black Hole”).

Verizon New York’s response claims that it explains the mismatches, etc., in “Schedule 2b of Verizon NY’s 2010 Annual Report”.

[8] http://newnetworks.com/verizonsfinancialshellgame/
[9] http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={6AA9D40E-0AC7-463A-9B91-AACFDF333FE7}

In ***"It's All Interconnected",*** published in May 2014, we used Schedule 2B data from Verizon NY's 2009 and 2010 Annual Reports. This is a snapshot from the actual 2009 document.

EXHIBIT 8
Verizon NY Regulated and SEC Financial Reports Compared, 2009

Annual Report of VERIZON NEW YORK INC.

For the period ending DECEMBER 31, 2009

Income Statement $(M)	Annual Report to Bondholders	Annual Report To The PSC	Difference
Operating Revenues	7,840	5,176	2,664
Operating Expenses	8,534	6,293	2,242
Net Operating Revenues	(695)	(1,117)	422

In 2009, there was a $2.67 billion difference in the financial books, which Verizon claims is from differences in accounting and that Schedule 2b will make everything clear.

Schedule 2b offered no such explanation. There are no descriptions on Schedule 2b or any explanation of anything dealing with the accounting. However, in the report we found something called "LD Consolidation". We called this "Black Hole" revenues because there is no information about this line item in either the SEC or PSC reports. This next exhibit supplies the actual snapshot of the footnote in Schedule 2B, which doesn't explain anything about this financial mismatch.

EXHIBIT 9
Excerpt from Verizon NY PSC Filed Annual Report with LD Consolidation, 2009

Revenues	
1) Annual Report to PSC	5,176
Empire City Subway Co. (Ltd) accounts	10
→ LD consolidation	2,587
Uncollectibles Included in Exp (see #2)	67
Annual Report to Bondholders	7,840

Expenses	
2) Annual Report to PSC (Done)	6,293
Empire City Subway Co. (Ltd) accounts	(17)
Reclass Affilate MKUP from Non Oper to Oper Exp (See #3)	15
Uncollectibles Included in Exp (see #1)	67
Other Costs of sales/Service (See #3)	1
(G)/L on Sale of Oper Assets (See #3)	(38)
Other State and Local Tax (See #3)	472
Other G&A Expense (See #3)	8
Gross Receipts Tax (See #3)	4
→ LD consolidation	1,732
Annual Report to Bondholders	8,534

This, however, is not the only difference in revenues between the SEC and PSC books.

See our report on Verizon New York revenues for details.

3.0 Verizon NY Losses, Tax Benefits and Returns on Equity, 2000-2014

- Verizon NY lost $2.6 billion in 2014 and had an" income tax benefit" of $1.3 billion.
- Starting in 2009, Verizon NY showed losses with an average of $2.3 billion a year and a resulting 'income tax benefit' of $1.1 billion.
- For this 6 year period, Verizon NY lost $13.63 billion and had an income tax benefit of $6.34 billion.
- NOTE: 2013 showed a profit from a one-time 'extraordinary' pension income deal.

EXHIBIT 10
Verizon New York, Losses and Income Tax Benefit, 2009-2014

	2009	2010	2011	2012	2013	2014	Total	Avg.
PSC Annual								
Losses	($1,117)	($2,257)	($2,367)	($2,618)	($2,696)	$ (2,578)	$ (13,633)	$ (2,272)
Income Tax Benefit	($667)	($974)	($1,062)	($1,161)	($1,196)	$ (1,278)	$ (6,338)	$ (1,056)
Losses SEC								
Losses	($971)	($2,200)						
Income Tax Benefit	($379)	($716)						

3.1 Verizon NY Overall Intrastate Return and Return on Equity, 2000-2014

Verizon has complained to the state that it has been losing extensive amounts from the 'intrastate' return, which shows a continuous negative number, starting in 2003, 11 years. However, the intrastate return on equity has been highly profitable since 2010.

EXHIBIT 11
Verizon New York Overall Intrastate Return and Return on Equity, 2000-2014

	2000	2001	2002	2003	2004	2006	2007
Overall intrastate return	4.06%	2.61%	1.19%	-6.30%	-0.03%	-4.89%	-6.24%
Intrastate return on equity	-0.07%	-4.38%	-10.99%	-40.26%	-44.66%	-73.60%	-46.00%

	2008	2009	2010	2011	2012	2013	2014
Overall intrastate return	-6.70%	-16.03%	-22.03%	-18.55%	-24.50%	-6.43%	-26.26%
Intrastate return on equity	-48.66%	-142.96%	2077.15%	129.38%	62.64%	22.38%	45.35%

We have no clear understanding of what are the cost-causers to create these swings in profitability of the intrastate return on equity.

4.0 Verizon New York Expenses

Verizon New York and Verizon Communications assign the company's expenses to each category. The main expenses are:

- **Networks Expenses —** This includes the 'capital expenditures', and it is mainly the money spent on upgrading and maintaining the networks. These are commonly known as "Plant & Non-Specific Plant" expenses and they can be everything from 'conduit' to the actual poles that carry the conduit.
- **Corporate Operations —** Verizon Communications, the parent holding company, is able to dump billions of corporate expenses into the local phone utility companies, such as Verizon New York, and this includes everything from lobbying and lawyers to paying for use of the corporate jet.
- **Marketing —** This is includes advertising and marketing the product, known as 'product management'.
- **Customer Services —** Are mainly the services related to handling customers, from taking new orders to handling customer issues and billing.

4.1 How the Financial Shell Game has been Played.

Let's examine one aspect of the losses — dumping the majority of "Corporate Operation" expenses into "Local Service". This is an excerpt that appeared in the Verizon New York SEC financial report, as well as the other state financial reports, for the year 2010.

And most importantly, remember that Verizon New York was able to get multiple rate increases for basic residential phone service over the last decade based on 'massive deployment of fiber optics' and 'losses'; Corporate Operation expenses are included in the calculation of 'losses'.

EXHIBIT 12
Verizon Services, as told by the Verizon NY SEC 4th Quarter Filing, 2010

Verizon Services

We have contractual arrangements with Verizon Services for the provision of various centralized services. These services are divided into two broad categories. The first category is comprised of network related services which generally benefit only Verizon's operating telephone subsidiaries. These services include marketing, sales, legal, accounting, finance, data processing, materials management, procurement, labor relations, and staff support for various network operations. The second category is comprised of overhead and support services which generally benefit all subsidiaries of Verizon. Such services include corporate governance, corporate finance, external affairs, legal, media relations, employee communications, corporate advertising, human resources, treasury, and rent expenses associated with the rental of facilities and equipment. Costs may be either directly assigned to one subsidiary or allocated to more than one subsidiary based on functional reviews of the work performed.

(Almost identical language appeared in every Verizon state-based SEC report for the year 2010, from Massachusetts down through Virginia; it was even in the SEC-filed reports for the former GTE territories — California, Texas and Florida, (which are now being sold off)).

There are also FCC rules and definitions of what constitutes the ‘corporate operations’ expense that are more extensive and show that almost any expense can end up in this expense line item. For example, the following list shows that the monies are going to ‘maintain relationships’ with the public et al., and that can include public relations, or dealing with new or existing legislation. (And notice that there are other financial buckets of money at play here that also show up on state utility books.)

EXHIBIT 13
Corporate Operations Expense as Told by FCC Rules[10]

> “(d) Maintaining relations with government, regulators, other companies and the general public. This includes:
>
> (1) Reviewing existing or pending legislation (see also Account 7300, Nonoperating income and expense, for lobbying expenses);
>
> (2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits;
>
> (3) Performing public relations and non-product-related corporate image advertising activities;

4.2 Corporate Operations: Verizon Services

"Verizon Services" is an umbrella for the corporate-expense fund that ends up in the accounting of the state utility.

This next exhibit is a partial collection of affiliate companies that were included in a list of the ‘affiliate transactions’ where Verizon New York “purchased (services) from affiliates". Unfortunately, there are no descriptions of these companies in the financial books or any coherent description anywhere else online, so some of these may, in fact, not be part of the corporation operations expense.

[10] In the Annual Report it is referred to as Corporate Operations Expense, on the FCC rules it is under General and Administrative -- http://www.hallikainen.org/FCC/FccRules/2014/32/6720/index.php

EXHIBIT 14
Verizon NY Purchased Services from Selected Verizon Affiliate Companies, 2014

Vz=Verizon		Amount Paid
Vz Corporate Services Corp	Purchased from Affiliates	$ 468,671,411
Vz Corporate Services Group	Purchased from Affiliates	$ 148,001,498
Vz Corporate Resources Group	Purchased from Affiliates	$ 168,971,552
Vz Select Services Inc	Purchased from Affiliates	$ 1,382,945
Vz Services Corp	Purchased from Affiliates	$1,488,388,751
Vz Services Operations Inc	Purchased from Affiliates	$ 9,908,329
Vz Services Organization Inc	Purchased from Affiliates	$ 107,994,523

4.3 How Does It All Play Out in Verizon New York's Accounting?

EXHIBIT 15
Verizon NY Revenues and Corporate Operations Expense, 2003-2014

2003	Total	Nonregulated	Local Service	Access
Total Revenues	$ 7,148,203,639	$ 219,748,000	$ 4,666,839,000	$ 2,230,978,000
% of Revenues		3%	65%	31%
Corporate	$ 1,921,045,187	$ 131,435,000	$ 1,249,051,000	$ 537,299,000
% of Corporate		7%	65%	28%
2010	**Total**	**Nonregulated**	**Local Service**	**Access**
Total Revenues	$4,982,344,773	$657,117,766	$2,198,098,276	$2,127,128,731
% of Revenues		13%	44%	43%
Corporate	$996,443,439	$101,275,522	$605,665,165	$289,502,751
% of Corporate		10%	61%	29%
2014	**Total**	**Nonregulated**	**Local Service**	**Access**
Total Revenues	$5,230,477,636	$1,431,325,888	$1,441,591,799	$2,357,559,949
% of Revenues		27%	27.6%	45%
Corporate	$2,604,155,474	$264,678,550	$1,572,288,568	$767,188,356
% of Corporate		10%	60%	29%

Sources: Verizon New York, New Networks Institute

In 2003, Local Service represented 65% of the revenues and it paid 65% of Corporate Operations.

By 2014, Local Service represented 27.6% of Verizon New York's revenues but paid 60% of corporate expenses — $1.57 billion.

When examining the minutia of this category one is struck by what has been dumped into the state utility books. This excerpt from the 2014 Verizon New York Annual Report includes executive pay, legal, regulatory and a host of other large categories, such as ‘Other General & Administrative”. Local Service was charged 60% of this expense.

EXHIBIT 16
Verizon NY Corporate Operations Expenses, 2014

VERIZON NY CORPORATE EXPENSES, 2014			This Year Total (e)
		Corporate Operations Expense	
		Executive and Planning	
80	6711	Executive	24,834,054
81	6712	Planning	1,450,839
82	6710	Executive and Planning	26,284,893
		General & Administrative	
83	6721	Accounting & Finance	40,799,397
84	6722	External Relations	6,960,031
85	6723	Human Resources	35,726,684
86	6724	Information Management	206,345,037
87	6725	Legal	21,582,152
88	6726	Procurement	4,836,026
89	6727	Research and Development	(1,353)
90	6728	Other General & Administrative	2,261,622,605
91	6720	General & Administrative	2,577,870,580
92	6790	Provision for Uncollectible Notes Receivable	0
93		Total Corporate Operations Expenses	2,604,155,474

Sources; Verizon NY Annual Report, 2014, New Networks Institute

4.4 The Stark Pattern of the “Freeze”

To show the stark pattern of freezing the expenses for each year, regardless of the change in revenues, this next exhibit details “Customer Service Operations”, starting with the year 2003 and then the last 6 years, from 2009 through 2014.

Customer Service Operations are the costs associated with handling the customer, from order taking to handling complaints and inquiries. While trouble with a landline can still take up time for the Verizon customer representatives, it’s clear that the company has merged much of the operations and handles everything, including FiOS services. It is highly improbable that the costs to handle customers when Local Service was 65% to now, where the company isn’t even advertising and selling the product or related services, should be at the same expense level.

Yet, the pattern remains almost identical, plus or minus a few percentage points. In 2003, Nonregulated paid 8.6% of this expense, Local Service paid 69% and Access was 22%, and each following year kept this ratio pretty much intact.

EXHIBIT 17
Customer Operations Service Expenses by Financial Buckets, 2003-2014

	Expense by Bucket	Nonregulated	Local Service	Access
2003	Customer Operations Services	8.6%	69.4%	22.0%
2009	Customer Operations Services	7.3%	69.3%	23.4%
2010	Customer Operations Services	8.6%	68.6%	22.7%
2011	Customer Operations Services	8.3%	70.9%	20.8%
2012	Customer Operations Services	8.3%	70.3%	21.4%
2013	Customer Operations Services	7.6%	68.8%	23.6%
2014	Customer Operations Services	7.6%	68.0%	24.4%

Sources; Verizon NY Annual Reports, New Networks Institute

And all major expense categories we examined had the same mathematical patterning, where Local Service paid most of the expenses and the other financial buckets paid considerably less. This is “Marketing”.

EXHIBIT 18
Marketing Expenses by Year by Local, Access &Nonregulated Buckets, 2003-2014

		Nonregulated	Local	Access
2003	Marketing	5.8%	68.2%	26.0%
2009	Marketing	25.4%	53.4%	21.2%
2010	Marketing	22.7%	56.2%	21.0%
2011	Marketing	24.7%	53.9%	21.4%
2012	Marketing	26.0%	53.7%	20.3%
2013	Marketing	23.0%	53.9%	23.1%
2014	Marketing	22.5%	52.6%	24.9%

Sources; Verizon NY Annual Reports, New Networks Institute

5.0 Timeline: Tracking the "Massive Deployment of Fiber Optics" & "Losses".

In order to understand how all this has played out in New York State over the last decade — how the 'losses' were used to raise rates or as an excuse to stop building and maintaining the networks — we thought a timeline highlighting some of the critical points would be beneficial.

The Timeline and Primary Issues

Summary

- In 2004, Verizon announced its plans for FiOS, a group of phone, Internet, broadband and cable TV services that ride over a fiber optic network wire.
- In 2005, Verizon was able to get the New York State Public Service Commission (NYPSC) to agree that the fiber optic wire was simply an upgrade and enhancement of the existing NY State telecommunications utility. In fact, all of Verizon's fiber optic networks are classified as a telecommunications, "Title II", "common carriage" service under the Communications Act of 1934.
- Starting in 2006, the NYPSC granted Verizon deregulation and started the process of multiple rate increases on residential as well as business customers' basic phone service; ancillary services were allowed to increase to 'market pricing'.
- The NYPSC claimed that Verizon needed rate increases and deregulation for two primary reasons — building broadband infrastructure and financial losses, which were being caused by competition and was evidenced by access line declines.
- In 2008 and 2009, Verizon was granted two additional rate increases based on "massive deployment of fiber optics" and financial losses.
- In 2010, Verizon Corporate announced it was no longer going to upgrade customers with fiber optic service unless there is an existing, unfulfilled agreement.
- In 2012, Verizon Corporate announced it was going to 'kill the copper' and shut off the networks in unupgraded areas and force-migrate customers onto wireless or in upgraded areas, force-migrate to FiOS.
- In 2015, the NYPSC is revisiting the last decade of telecommunications and its Staff has published a report. Unfortunately, the Commission never audited the company or conducted a major telecommunications proceeding. The NYPSC is also addressing the Petition by Connect New York Coalition (which was based, in part, on previous NNI reports).

2004-2005

Verizon Announces FiOS, a Brand of Services

Verizon announced that a fiber optic network would be created to deliver FiOS, a brand name for a group of services that includes broadband, Internet and cable TV. Verizon claimed that it will be built out to reach 18 million households nationwide, and the company would be spending $23 billion, with a proposed completion by 2011-2012. This 'broadband carrot' was used for multiple state and federal changes in policies, laws and regulations.[11]

Subplot: FiOS was announced to get the FCC to close the state utility networks, including any fiber optic upgrades, to all competition, it would allow Verizon to purchase MCI, which was then an independent company, and it would consolidate all of its services over the wire, sometimes referred to as a 'vertical integration' of products. (SBC, like Verizon, also wanted to shut down competitors from using the networks and to purchase AT&T; SBC would merge with AT&T and take the name. SBC/AT&T announced "U-Verse" around the same time. It was supposed to be a fiber optic service, but instead it is based on the exiting copper wires.)

2005

In 2005, Verizon Starts Promoting FiOS TV to Municipalities.

In 2005, Verizon tells the NYPSC that it is going to serve millions of New Yorkers, if only the NYPSC would just let the fiber optic networks be part of the state utility.[12] This is an excerpt of the original text. Notice it specifically states that this fiber optic network is "upgrading the existing network".

INTRODUCTION

The legal question before the Commission is both narrow and straightforward. According to Petitioners, Verizon is prohibited from upgrading its existing network to provide improved telecommunications and information services to millions of New Yorkers until it obtains cable television franchises from the localities in which it already offers ubiquitous telecommunications and information services. Federal and state law, however, are unambiguously to the contrary.

[11] See: "The Book of Broken Promises: $400 Billion Broadband Scandal & Free the Net".

[12] http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={C0FB1F9F-3880-417A-BAFE-EEF87DEB210D}

Verizon's Fiber Optic Networks are "Title II" and Part of the State Utility.

Verizon went to NYPSC and said that the Fiber-to-the-Premises, FTTP networks, are an enhancement and upgrade to the existing state telecommunications utility networks, and are classified as "Title II", "common carriage" networks, based on the Communications Act of 1934. This is commonly known as the "PSTN", Public Switched Telephone Network, and traditionally has been mostly based on a copper wire. This would also give Verizon the benefit of using the telecommunications rights-of-way.[13]

In 2005, the NYPSC Agrees with Verizon, Making the Fiber Optics Networks "Title II".[14]

This is an excerpt from the original decision.

> **On June 15, 2005, the New York Public Service Commission ("NY PSC") "declared that Verizon NY's FTTP upgrade is authorized under its existing state telephone rights because the upgrade furthers the deployment of telecommunications and broadband services, and is consistent with state and federal law and in the public interest." The NY PSC determined that, unlike a company seeking to build an unfranchised cable television system, Verizon NY already has the necessary authority to use the rights-of-way to provide telecommunications service over its existing network. *See* Declaratory Ruling on Verizon Communication, Inc.'s Built-Out of its Fiber to the Premises Network, NY Public Service Commission, Case 05-M-0520/05-M-0247, June 15, 2005 at 4.**
>
> **As more fully described in Exhibit 1, Verizon NY maintains that it is constructing its FTTP network pursuant to its authority as a common carrier under Title II of the Communications Act of 1934, as amended, and Section 27 of the New York Transportation Corporations Law. For this reason and others, certain terms and conditions may differ between the incumbent cable provider's franchise and Verizon NY's franchise.**

2005-2006

Verizon NY Receives Major Deregulation of Services and Less Obligations.

(NOTE: There are two main incumbent utility phone companies in New York; Verizon and Frontier. The deregulation discussed in this part applies to both companies.)

In 2005, Verizon applies for major deregulation of most services and the NYPSC grants the request in 2006, in an Order referred to as "Comp III". Except for 'basic' phone

[13] http://newnetworks.com/verizonasutility2005/

[14] Ibid.

service, most of the other services could have “market pricing”, i.e., whatever they wanted to charge — with some caveats.

The idea was to give “regulatory” flexibility, meaning the companies can do what they want about the pricing of most non-basic services, such as nonlisted numbers and Caller ID.

Verizon claimed that there was plenty of “intermodal competition” and it needed a ‘level playing field’. The NYPSC claimed that raising rates and making the cost of service reflect the company’s reported cost to offer the service, was the way to do this.[15]

The NYPSC also claimed that this new regulatory freedom would bring investment in infrastructure (FiOS) and help stem Verizon’s financial losses. (There are two overlapping documents: the Order to raise rates, commonly referred to as “Comp III” and the press release.[16,17])

NYPSC Uses Infrastructure Investment as a Main Reason for Rate Increases.

One of the reasons to grant deregulation was to have the incumbents, Verizon and Frontier, build out infrastructure — for Verizon it was FiOS. The NYPSC Order and press release in 2006, make multiple references to this.

Notice these phrases in the following quotes: “Investment in the state telecom infrastructure”, “proper market-based incentives to invest in infrastructure” and “encourage economic investment in the state telecom infrastructure”.

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[15] Essentially, “intermodal competition” is a term that usually refers to the cable and phone companies being the primary competitors and all of the other competitors, from independent ISPs and CLECs are removed or severely hampered. This is as opposed to “open networks” that was part of the Telecommunications Act of 1996 which allowed competitors to rent parts of the network, (including the use of a phone line) to offer their own Internet, broadband, phone or even cable services. In 2001, the FCC created a series of interlocking orders known as the “Triennial Review”, to remove competitors from the networks. See: “The Book of Broken Promises”

[16] Proceeding on Motion of the Commission to Examine Issues Related to the Transition to Intermodal Competition in the Provision of Telecommunications Services. STATEMENT OF POLICY ON FURTHER STEPS TOWARD COMPETITION IN THE INTERMODAL TELECOMMUNICATIONS MARKET AND ORDER ALLOWING RATE FILINGS, CASE 05-C-0616, NYPSC (Issued and Effective April 11, 2006)
http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={DE5DAC8C-CB50-4CAE-90BE-A5A56DB6DE99}

[17] Commission Adopts Telecommunications Policy Framework to Address Changing Industry Dynamics, Case 05-C-0616, NYPSC, April, 11, 2006
http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={BBB737DE-69AE-4E98-978D-61475362A027}

Some quotes:

> "The Commission's policy is designed to encourage infrastructure investment to promote network reliability and preserve the existing network, strengthen service quality and promote the emergence of new services."

> "The Commission undertook this comprehensive examination of the policies, rules and practices governing telephone service in New York with the goal of establishing a more flexible and symmetrical regulatory framework that will promote innovation, increase consumer benefits, encourage economic investment in the state's telecommunications infrastructure."

> "Commissioner Thomas Dunleavy said, 'The information economy requires widespread access to flexible telecommunications applications that facilitate economic development and investments in jobs from the private sector. Achieving that objective requires a level playing field where all telecommunications providers have the proper market-based incentives to invest in infrastructure'."

The NYPSC Granted Rate Increases Based on Losses — But Verizon Never Asked for Rate Increases Based on the Losses.

This is the most bizarre part of the story. Verizon is 'losing money', but as the quote below highlights, Verizon never went to the NYPSC to raise rates for the losses.

> "We conclude that Verizon-NY and Frontier Telephone of Rochester, Inc. (Frontier of Rochester), in particular, have lost significant market share and are losing dominance and market power. This circumstance is apparent from the fact that they are **experiencing dramatically lower earnings and in the case of Verizon operating losses.**

> **"Verizon has not come to the Commission for major rate changes to redress the situation since the end of the Verizon Incentive Plan in March 2004.**

> "It is our responsibility to balance interests in setting rates, and despite comments to the contrary, New York's wireline business is under substantial competitive financial pressure. It thus seems clear that the arrival of intermodal competition has affected the customer/investor balance to the detriment of the legacy carriers. The wireline losses cannot long continue before serious problems will arise in the

> maintenance and operation of the legacy infrastructure. Accordingly, we believe the appropriate balance in this instance is to permit Verizon and Frontier of Rochester to raise the monthly charge for the access line portion of message rate service. Similarly we will allow Verizon to gradually raise existing flat rate basic service rates up to a statewide cap rate, and to retain any additional revenues generated by the increases from both the message rate and flat rate services." (Emphasis added)

The NYPSC Did Not Audit the Books or Make Them Public.

First, a footnote from the Order states that the New York Attorney General's Office pointed out that Verizon did not ask for the rate increases because it wanted to get "around a formal rate proceeding".

> "The Attorney General of the State of New York) (DOL) charges that the rate increases proposed here are an improper shortcut around a formal rate proceeding."[18]

The Attorney General of the State of New York ripped at the NYPSC, which had issued a report about the market and the increases. The AG found that the companies didn't present a real proposal of rate increases; there was insufficient evidence, no independent public examination, and the rates were not supposed to be tied to the company's revenues and profits.

> "No affected telephone company presented the proposal sketched in the Staff White Paper. In fact, Staffs proposed rates are greater than some of the rates recently requested in a tariff filed by Verizon, the state's largest regulated incumbent.
>
> "The record evidence is insufficient to justify such across-the-board rate changes, and this proceeding, to date, has not allowed the parties to adequately examine the proposed new rates.
>
> "For example, Verizon's financial performance data has not been subjected to examination by interested parties, and has not even been vouched for under oath by a Verizon witness. Staff relies upon an assessment that Verizon's financial condition requires these increases. Yet, Verizon voluntarily chose to divorce earnings from rates when it agreed to the Performance Regulatory Plan in 1995, and again more recently with adoption in 2002…

[18] See footnote 6

> "Instead, formal hearings with sworn testimony and a reasonable opportunity for examination of providers' financial data pursuant to Public Service Law §§91 and 92 should precede the adoption of any significant rate changes. Even If the Commission believes that the days of full- blown rate proceedings are past, prudence requires development of a record considerably more substantial than the high-level conceptual analysis and theoretical approach that has been applied thus far in this proceeding." [19]

2008

Verizon is Granted a Second Rate Increase in 2008.

In 2008, the NYPSC granted the second rate increase, again based on "massive deployment of fiber optics" and "losses". And again, in 2008, Verizon "explicitly refused to make its case on financial need".[20]

> "And, moreover, it makes sense to allow Verizon to fund its capital program through increases to relatively inelastic customers (in much the same way exchange access was subsidized by pricing custom calling features and other non-basic services far above cost). Nor is it too little: Verizon explicitly refused to make its case on financial need and we could simply deny the requested relief. For the reasons set forth above, Verizon will be allowed to make tariff filings to increase rates for these services."

2009

Verizon Receives a Third Rate Increase for "Massive Deployment of Fiber Optics" and Financial Losses.

For the third increase, which occurred in June 2009, Verizon filed a 2-page letter, with attachments — that's it.[21]

In the discussion, Verizon characterizes the FiOS build out as "an advanced voice/video/data network".

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[19] http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={D6B4AB39-B159-4F5E-BC70-01E347801A1B}

[20]

[21] http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={8AD98EB0-80A2-420C-9CFD-ED6E011E9CBB}

And most important, Verizon does not mention it is losing money but quotes the NYPSC that addresses Verizon's own financials.

Excerpt from Verizon's request for a rate increase:[22]

> This price increase will generate needed additional short-term revenues for Verizon, as the company faces the dual financial pressures created by competitive access line losses and the costs of building out an advanced voice/video/data network in the State. As the Commission has noted, Verizon's financial condition is "relevant" when the Commission considers pricing changes because "the state has an interest in a viable company. This is especially important given the magnitude of the company's capital investment program, including its massive deployment of fiber." "There seems to be little question that the company is in need of financial relief; Verizon [New York] reported an overall intrastate return of a negative 4.89% in 2006 and its reported intrastate return on common equity was a negative 73.6%."[3] For 2007, Verizon reported an overall intrastate return of negative 6.24% and an intrastate return on common equity of negative 46.0%.
>
> Moreover, this price change will encourage the migration of customers towards higher-value service bundles, consistent with the trend toward bundled service offerings in the market as a whole.

And there is a curious note added to the Verizon letter above — Verizon's plan will encourage customers to pay more via "higher-value service bundles", which is a euphemism for when the customer goes to FiOS, the company can upsell them and make more money, which we documented in statements made by Verizon's CEO and CFO.[23]

Verizon's quote references the original language of the State-granted 2008 rate increase.

> "Cases 06-C-0897 and 07-C-061 0, "Order Denying Request for 25% Pricing Flexibility and Allowing for a 10% Increase to Certain Business Rates" (issued and effective January 17, 2008), at 13-14 (emphasis in original). The Public Service Law requires the Commission to consider a regulated company's ability to earn a reasonable rate of return in considering price changes. See Pub. Serv. L. §§ 97(1), 114."

Notice: Verizon is a 'regulated' company.

[22] Ibid.
[23] http://www.huffingtonpost.com/bruce-kushnick/want-to-know-what-verizon-and-att-really-tell-their-investors_b_4640640.html

2010-2012

Verizon Stops the Deployment of FiOS.

Verizon made announcements that it will no longer be upgrading most of their territories, except where there are existing requirements, starting in 2010, but most of the discussion happened in 2012.

Stop the Cap, writes:[24]

> "Verizon Won't Expand FiOS Beyond Current Franchise Obligations, CFO Tells Investors, September 25th, 2012.

[24] http://stopthecap.com/2012/09/25/verizon-wont-expand-fios-beyond-current-franchise-obligations-cfo-tells-investors/

6.0 2015: Verizon NY's Fiber Optic, FiOS Services in NY State & NYC

There are a number of questions that arise from the examination of FiOS but at the core is the status of the 'massive deployment of fiber optics'.

This exhibit summarizes the status of FiOS service coverage, or the lack thereof, and was created using FCC, US Census and Verizon's statements.

EXHIBIT 19
Accounting of Verizon New York's FiOS Coverage, 2015

	NY State	Verizon	NY City
Household	7,234,743	6,438,921	3,070,298
Housing Units	8,126,026	7,232,163	3,371,062
Firms	1,956,733	1,741,492	944,129
Homes & Business	9,191,476	8,180,414	4,014,427
Housing Units & Biz	10,082,759	8,973,656	4,315,191
FiOS Homes and Businesses		**4,000,000**	
		NY State	**% coverage**
Homes		6,438,921	62%
Housing Units		7,232,163	55%
Homes & Business		8,180,414	49%
Housing Units & Biz		8,973,656	45%
		NY City	**% coverage**
FiOS Homes and Businesses		2,000,000	
Homes		**3,070,298**	**65%**
Housing Units		**3,371,062**	**59%**
Homes & Business		**4,014,427**	**50%**
Housing Units & Biz		**4,315,191**	**46%**

NOTE: There are differences based on the terms used. "Homes" ("Households"), "Housing Units" (sometimes called "Residential Dwelling Units'), "Homes and Businesses", etc., all have specific definitions of what they cover and thus have a different accounting of population.[25]

Walking through the Calculations and Facts

- The number of "Households", "Housing Units" ("Residential Dwelling Units") and "Businesses" for NY State and NY City are taken from the US Census.
- Using FCC supplied data — Verizon controls about 89% of the State.[26]
- "New York State" includes New York City.

[25] http://quickfacts.census.gov/qfd/states/36000.html
[26] "Statistics of Common Carriers", FCC, for the year ending December, 31, 2007 (the last year of publication.)

- Verizon has 100% of New York City's telecommunications as the incumbent phone company.

Verizon's own press release claimed that it had "over 4 million homes and businesses" in New York State (and including the City of New York) at the end of 2014.[27]

> "Fiber-optic networks strengthen communities, and last year Verizon continued deployment of its 100 percent fiber-optic network, with its FiOS TV and FiOS Internet services. At year's end, FiOS services were available to more than 4 million New York and Connecticut homes and businesses."

Notice that this quote from Verizon is for 'homes and businesses', while the New York City franchise appears to use "households" in some places, but in other places uses "residential dwelling units".

They are not the same. There are 300,000 more 'residential dwelling (housing) units' than 'households' according to the US Census, (and almost 800,000 more in New York State total).

This quote from the original Verizon FiOS franchise agreement with the City of New York would indicate that the coverage was for 'residential dwelling units'.

EXHIBIT 20
Verizon New York FiOS Cable Franchise: Residential Dwelling Units

5.3. *Service Availability*:

5.3.1. *Initial Availability of Cable Service*: Franchisee shall make Cable Service available to all residential dwelling units, at Franchisee's expense, except that Franchisee may charge a standard installation fee, and may make Cable Service available to businesses, in conformance with Section 5.4. The parties hereto agree that the terms of this Section 5.3.1 satisfy the minimum standards set forth in 16 NYCRR Section 895.5.

5.4. *Provision of Service:* Subject to the exceptions set forth in Subsection 5.5 hereof, Franchisee shall make Cable Service available to all residential dwelling units in the Service Area. Franchisee agrees that it shall not discriminate between or among any individuals in the availability of Cable Service or based upon the income in a local area.

NOTE: The Verizon NYC FiOS franchise does not include commercial businesses.

[27] http://www.manhattancc.org/wcnews/NewsArticleDisplay.aspx?articleid=1271

Simple Math Kicks in.

Using Only "Homes":

- If Verizon has 4 million homes and businesses
- There are 6.4 million households covered by Verizon in New York State, and if
- ½ of the deployments are upstate and the other half are in New York City,
- Then, Verizon can only have 2 million covered in New York City.
- Census tells us that New York City has 3 million homes.
- 65% coverage—at best.

Using the Other Terms

- The Verizon New York quote states there are 4 million "homes and businesses", then availability in New York City is only 50%.
- If we use "housing units" and "housing units and businesses", the number drops further.

6.1 Verizon's NY City's FiOS Cable Franchise

By July, 2014, 100% of New York City's residential households should have been able to get FiOS TV cable service delivered over a fiber optic wire. As discussed, Verizon has about 46-65% of coverage of New York City, depending on which metric you decide to apply.

On June 18, 2015, an audit report of Verizon's FiOS deployment came out by the City of New York.[28] So it is no surprise that the City found gaps in deployment.

> "The findings of this audit, are that Verizon claimed households as "passed" with fiber optic cable before the necessary fiber connections to the block containing those households were made; that Verizon systematically refused to accept orders for residential service, not only before it had "passed" a household but even well after it claimed it had passed a household…and Verizon provided the public with misleading information with regard to Verizon's obligations.
>
> "Anecdotal evidence in the form of complaints from potential subscribers revealed that Verizon was taking credit for households passed when reporting compliance with milestones to the City but informing potential subscribers that service was not available at their addresses."

[28] http://www.nyc.gov/html/doitt/downloads/pdf/verizon-audit.pdf

The one thing the audit report did not do is the math of just how far off Verizon has to be by their own accounting.

Backtracking, in April 2013, then-NYC Public Advocate, now-Mayor Bill de Blasio presented facts that Verizon's buildout was way behind schedule. Using data from July-through-December 2012 (and published in April 2013), Verizon only had 51% of NYC residential 'housing units' capable of ordering FiOS service. According to the City, there are 3.4 million housing units and Verizon had "passed" only 1.7 million of them.[29]

EXHIBIT 21
Verizon New York FiOS Franchise Deployment 2013

New York City Population and Franchise, April, 2013

Borough	Population *	Housing Units*	Housing Units w/ Access to Fiber Broadband	% of Total Housing Units w/ Access to Fiber Broadband
Manhattan	1,585,873	847,090	423,000	49.9%
Brooklyn	2,504,700	1,000,293	404,000	40.4%
Bronx	1,385,108	511,896	235,000	45.9%
Queens	2,230,722	835,127	488,000	58.4%
Staten Island	468,730	176,656	168,000	95.1%
Total	8,175,133	3,371,062	1,718,000	51.0%

* Based on 2010 Census data

And yet, according to *Ars Technica*, quoting Verizon, Verizon's claimed that their fiber optic service in June 2014 passed buildings in "90 percent of the Bronx, 89 percent of Brooklyn, 94 percent of Manhattan, 90 percent of Queens and virtually the entirety".

6.2 80% of NY Municipalities are Not being Served by Verizon NY's FiOS.

According to *Newsday*, January 31, 2014, Verizon spokesman John J. Bonomo stated that Verizon had commitments to deploy FiOS fiber optic services in 182 communities.

> "Bonomo said the company is required to complete fiber-optic 'buildouts' in about 182 New York State communities where Verizon holds franchise contracts."[30]

In an interview on *WAMC* radio, November, 27, 2013, Bonomo claimed there are 183 municipalities in VNY's service territory that do or should be able to receive FiOS TV. VNY had no plans for expansion beyond these commitments.

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[29] http://archive.advocate.nyc.gov/verizon
[30] http://www.newsday.com/long-island/towns/brookhaven-officials-want-fios-expansion-1.6919245

> "But right now we have commitments to 183 municipalities where we need to complete 100% of our network. So we want to make sure that we make good on those commitments before we reach out and get new commitments. Of franchises in other communities, namely like Albany."[31]

And in 2015, nothing has changed. Verizon New York, in October 2015, still claimed it wasn't going to expand the FiOS network. Along side this, the company has been accused of 'redlining'. According to the *Times Union*:[32]

> "Verizon not expanding FiOS, but says redlining claims false.
>
> "Verizon told state regulators it has no plans to expand its FiOS fiber-optic network beyond its current locations while at the same time defending itself against claims of redlining.
>
> "Verizon's critics have accused the company of not deploying FiOS in lower income communities, but in a filing made Friday with the New York State Public Service Commission, the company says it has deployed FiOS in many low income areas, including Schenectady."

According to Wikipedia, there are a total of 996 towns and cities in New York State.

> "This is a list of towns in New York. As of the 2010 United States population census, the 62 counties of New York State are subdivided into 932 towns and 62 cities."[33]

With an estimate of 90% of coverage of New York State households by Verizon New York, based on the FCC's access line accounting, this would mean that only 20% of towns have been or are being upgraded by Verizon New York for FiOS.

[31] http://wamc.org/post/mayor-elect-city-leaders-call-verizon-fios-albany
[32] http://blog.timesunion.com/business/verizon-not-expanding-fios-but-says-redlining-claims-false/70000/
[33] http://en.wikipedia.org/wiki/List_of_towns_in_New_York

7.0 Verizon New York Rate Increases

This next exhibit gives the rate increases on regular basic POTS phone service from 2004 through 2015 and the numbers are taken (for 2004-2012) from actual residential phone bills in Brooklyn, New York.

Since 2004, pre-rate increases, there has been an:

- 84% rate increase on basic service.
- 248% increase on inside wire maintenance, a service that originally was built into basic service rates. We use it as an example to represent any additional services.
- All 'add-on services' from inside wiring to nonlisted numbers had major rate increases.
- From 2004 through 2015, if you simply had basic phone service and inside wiring, your rates went up 92%.

EXHIBIT 22
Verizon NY Basic Residential Phone Service, 2004-2015

	2004	2006	2008	2012	2013	2014	2015	Increase
Untimed Message	$ 8.61	$ 9.85	$ 13.85	$ 15.80	$ 15.80	$ 15.80	$ 15.80	84%
FCC Line Charge	$ 6.38	$ 6.40	$ 6.42	$ 6.40	$ 6.40	$ 6.40	$ 6.40	
Access Recovery (ARC)				$ 0.47	$ 0.47	$ 0.47	$ 2.00	
E911	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	
Universal Service Charge	$ 0.62	$ 0.74	$ 0.73	$ 1.11	$ 1.15	$ 1.20	$ 1.46	
Taxes, Fees Surcharges	$ 2.87	$ 3.09	$ 3.74	$ 4.20	$ 4.21	$ 4.22	$ 4.55	
Total Basic	$ 19.48	$ 21.08	$ 25.74	$ 28.98	$ 29.03	$ 29.08	$ 31.21	
Annual	$ 233.76	$252.99	$308.88	$347.78	$348.34	$348.97	$374.55	60%
Inside Wire (with taxes)	$ 4.01	$ 5.20	$ 6.96	$ 9.28	$ 9.28	$ 11.60	$ 13.92	248%
Total Monthly	$ 23.49	$ 26.29	$ 32.70	$ 38.26	$ 38.31	$ 40.68	$ 45.14	92%
Toal Annual	$ 281.83	$315.42	$392.35	$459.12	$459.68	$488.18	$541.63	92%

Sources: Verizon NY Phone Bills and Web Info, New Networks Institute

And Calling Features, for example, used by residential and business customers, have reached all time highs. This next exhibit is from the Verizon NY tariff showing that Call Waiting or Call Forwarding cost $8.25 a month per service, even though these services cost a fraction of one cent to offer.

EXHIBIT 23
Verizon NY Calling Features, 2015

4. Rates and Charges

The following rates and charges are in addition to all other applicable rates and charges for the facilities and service furnished. Each line equipped, including all stations on the line:

		Monthly Rate Residence		Monthly Rate Business	Connection Charge**	USOC
*, #(1)	Speed Dialing-8 number capacity	$8.00		$ 7.70		ESL
*, #(2)	Speed Dialing-30 number capacity	10.25		11.62		ESF
(3)	Three-way Calling	8.25	(C)(1)	7.70		ESC
(4)	Call Forwarding	8.25		7.98		ESM
(5)	Call Waiting	8.75		12.85		ESX
(6)						
##(7)	Combination of all features shown in:				Service Charge as specified in Section 30.14 of this Tariff.	
	(4) and (5)	9.75				ES7
	(3) and (5)	9.75				ER9
	(3) and (4)	9.75				ER5
	(3), (4) and (5)	13.00				ETC
	(4) and (1)	9.75				ER3
	(5) and (1)	9.75				ES6
	(3) and (1)	9.75				ER6
	(4),(5) and (1)	13.00				ESA
	(3),(5) and (1)	13.00				ET8
	(3),(4) and (1)	13.00				ESR
	(3),(4),(5) and (1)	16.00				ES3

However, it is impossible to know the full impact as this detailed list of rate increases and changes from the 2013 Verizon NY Annual Report shows a long list of changes to business and residential service.

EXHIBIT 24
Verizon NY Rate Changes, 2013

2013 Verizon New York Rates	
Description of Changes	**Effective Date**
Limited Service Offerings Revisions	1/25/2013
Individual Case Billing Addendum	1/16/2013
Residential Packages - Flexibly Priced Rate Change	1/19/2013
CustoPAK Rate Change	1/19/2013
Grandfathering of Frame Relay and ATM Cell Relay Services	2/15/2013
Individual Case Billing Addendum	2/15/2013
Foreign Exchange Line Rate Change	3/6/2013
Implementation of Charge for Blocking of *69 and Busy Redial for Business Customers	3/16/2013
Grandfathering of Verizon Regional Value Fixed Price Bundle	3/16/2013
Grandfathering and Price Increase of ISDN Basic Service for Business Customers	5/18/2013
Eliminate Quarterly Update for Unbundled TC Reciprocal Compensation Charge	4/5/2013
Verizon Credit Plan Promotion	3/17/2013
Rate Increase for Business Services and Features	3/16/2013
Withdrawal of Operator Passthrough and Busy Line Verification and Intercept Service	4/14/2013
Withdrawal of Busy Line Verification and Interrupt Service	4/6/2013
Individual Case Billing Addendum	3/22/2013
Rate Increase for Business Service Connection Charges	6/18/2013
Individual Case Billing Addendum	4/22/2013
Surcharge for State Universal Service Fund	7/1/2013
Wireless Service as Sole Offering	5/18/2013
UltraForward Revisions and Rate Increase	5/18/2013
Individual Case Billing Addendum	5/16/2013
Private Switch/Automatic Location Identification Service Rate Change	6/10/2013
Municipal Surcharge for Endicott and Fishkill	9/21/2013
Intrastate Access Service Rate Reductions	7/1/2013
Individual Case Billing Addendum	6/7/2013
Business Direct Bill Credit Changes	6/21/2013
SLIC Network Solutions Concurrence	6/14/2013
Withdrawal of Regional Value Bundle Discount Plan	7/5/2013
Rate Increase for Regional Essentials and Regional Value	7/20/2013
Rate Increase for Caller ID - Number Only	7/20/2013
Electronic Notifications of Suspension and Termination	8/17/2013
Rate Increase for Unlimited Local Usage for Business	9/21/2013
Withdrawal of Foreign Exchange Service - 24 month term	8/5/2013
Individual Case Billing Addendum	7/22/2013
Limited Service Offerings Revisions	8/10/2013
Rate Increase for Business Individual Message and Trunk	8/5/2013
Individual Case Billing Addendum	8/8/2013
Individual Case Billing Addendum	9/10/2013
Rate Increase for Residential Package	9/21/2013
Rate Increase for Unlimited Local and Toll Usage for Business	9/21/2013
Verizon Credit Plan Promotion	9/22/2013
Modification of Calculation of the Unbundled TC Reciprocal Compensation Charge	10/31/2013
Quarterly Revision to the Unbundled TC Reciprocal Compensation Charge	11/2/2013
Individual Case Billing Addendum	10/23/2013
Limited Service Offerings Revisions	11/12/2013
Rate Increase for Residential Services	11/16/2013
Grandfathering of Verizon Call Assistant	11/21/2013
Revisions to Solutions for Business	11/16/2013
Individual Case Billing Addendum	11/22/2013
Local Directory Assistance - Residential and National Directory Assistance Increase	12/3/2013

7.1 How Much Money Were Customers Charged? How Much Extra Did Verizon Make?

The following exhibit details the basic ‘extra’ charges on basic phone service and wire maintenance (though we use it to represent all ‘added’ services). I.e., these are the additional costs that were created via the rate increases that started in 2006 as told by an actual Verizon New York residential phone bills.

This example uses a Verizon New York City ‘measured’ service (meaning that calls are billed per call or per minute vs ‘flat rate’, where there is unlimited local calling) for just the basic charge. We also counted the taxes, fees and surcharges, as some of them are pass-through taxes on Verizon that customers pay, or they can be even direct revenue back to the company, such as the “FCC Line Charge” or the “Access Recovery Charge”, which is an added local charge, thrown on the bill by the FCC.

- Customers paid about $996.74 extra, counting taxes, fees and surcharges, since 2006 for the changes in state regulation.
- In 2015, that will be an extra $140.80 for just basic service for one year.
- If the customer had inside wire maintenance, they paid an additional $611.61.
- If the customer had just basic service and inside wire maintenance (or any other add on featured), they would have been charged about $1,608.35 extra since 2006.

EXHIBIT 25
Verizon NY Increases in Local Service & Inside Wiring, 2006-2014

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Untimed Message	$ 1.24	$ 5.21	$ 5.24	$ 7.19	$ 7.19	$ 7.19	$ 7.19	$ 7.19	$ 7.19	$ 7.19	$744.60
FCC Line Charge	$ 0.02	$ 0.04	$ 0.04	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$2.88
Access Recovery (ARC)	$ -	$ -	$ -	$ 0.47	$ 0.47	$ 0.47	$ 0.47	$ 0.47	$ 0.47	$ 2.00	$48.66
Universal Service Charge	$ 0.12	$ 0.11	$ 0.11	$ 0.49	$ 0.49	$ 0.49	$ 0.53	$ 0.53	$ 0.58	$ 0.84	$51.44
Taxes, Fees Surcharges	$ 0.22	$ 0.87	$ 0.87	$ 1.33	$ 1.33	$ 1.33	$ 1.34	$ 1.34	$ 1.35	$ 1.68	$139.97
Total Extra	$ 1.60	$ 6.26	$ 6.26	$ 9.50	$ 9.50	$ 9.50	$ 9.55	$ 9.55	$ 9.60	$ 11.73	$996.74
Total	$ 19.24	$75.12	$ 75.12	$114.03	$ 114.03	$ 114.03	$ 114.68	$ 114.68	$ 116.22	$ 140.80	
Total Wire Maintenance	$ 1.20	$ 2.95	$ 2.95	$ 5.27	$ 5.27	$ 5.27	$ 5.27	$ 5.27	$ 7.59	$ 9.92	$611.61
Total With Wire	$ 2.80	$ 9.21	$ 9.21	$ 14.77	$ 14.77	$ 14.77	$ 14.82	$ 14.82	$ 17.20	$ 21.65	$1,608.35

And on the revenue side, using Verizon NY's own claimed decline in access lines and the rate increases, Verizon brought in over $4.3 billion on just basic local service. If we add just the increases to one added charge, inside wire maintenance, (which we used as a surrogate for other add-on services), this brought the total to $5.6 billion (counting taxes). This is an estimate, considering the previous, highlighted additions and charges to local service costs.

EXHIBIT 26
Verizon NY Revenues from Rate Increases in Local Service & Inside Wiring, 2006-2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
POTS Access Lines *(In the Millions)*	7.90	7.20	6.50	5.90	5.30	4.10	3.50	3.08	2.73	2.55	
Basic Service	$151,976,250	$ 540,893,160	$ 480,306,325	$ 672,749,565	$ 604,334,355	$ 467,503,935	$ 401,039,625	$ 350,623,215	$ 314,537,278	$ 359,030,427	$ 4,350,994,136
1/2 Second Feature	$200,670,790	$ 660,314,900	$ 603,339,750	$ 859,391,020	$ 771,996,340	$ 597,196,900	$ 511,753,200	$ 447,410,512	$ 439,936,417	$ 510,761,675	$ 5,617,759,491

How Many Customers Have Inside Wire Maintenance?

There is no available accounting but surveys we conducted indicated that 50% of those paying this fee didn't order the service. This estimate used ½ of the customers having this (or an additional service, from 2006-2015).

8.0 Access Line Accounting Manipulation

Verizon New York has claimed massive access line losses. However, Verizon's accounting is supplying only one class of service — copper-based, phone lines that are used mostly for Local Service, voice phone calling, commonly known as "POTS", Plain Old Telephone Service.

Verizon's goal has been to seriously exaggerate the size of the loss of lines as it makes their case that the networks are being abandoned and unprofitable and therefore should be shut off or they should be able to get more rate increases. And while many believe that a 'landline' is just the copper-based service/wire, truth be told, since the 1990's, all wires, including fiber wires, are 'landlines' or in the industry are called 'access lines'.

USTA Quotes Verizon New York's Access Line Accounting, 2015

> "When you look at the numbers in New York, in 2000, the incumbent (Verizon New York) had over 11 million access lines. Today they have 2.9 million access lines." [34]

These numbers are provided by Verizon New York as quoted by the phone industry association and lobby — the United States Telecommunications Association, USTA.

8.1 Most Lines Are Not Counted?

This next exhibit is from the FCC's *"Statistic of Common Carriers"* report for the year 2007. Verizon NY had a total of 46.8 million access lines in just NY State, in 2007. The access lines USTA quotes could fall under the 4.7 million "Main Access Lines" (or it could include some of the other 'switched access' categories), but it is mostly the voice, "switched", copper-based phone lines, which only constitute a fraction of the actual lines in service in the year 2007.

NOTE: Terms like "switched", "non-switched" or "special access" are very complicated to understand and there are multiple caveats, too technical to discuss here. But at the bottom of all of this is — there are copper and fiber optic wires and the accounting is manipulated based on how the line is used — but they are all 'access lines'.

[34] http://isoc-ny.org/misc/2015-07-15-mayer-saunders.mp4

EXHIBIT 27
Verizon New York Access Lines, 2006-2007

		2007	2006
Switched Access Lines in Service:			
Main Access Lines		4,658,451	5,116,406
PBX & Centrex Trunks		460,379	463,709
Centrex Extensions		999,354	963,213
Other Switched Access Lines		1,064,404	1,417,158
Total Switched Access Lines		7,182,588	7,960,486
Central Office Switches Excluding Remote Switches		301	301
Remote Switches		300	299
Central Office Switches		601	600
Basic Rate ISDN Control Channels		62,486	67,019
Primary Rate ISDN Control Channels		14,952	14,442
Access Lines in Service by Customer:			
Business Switched Access Lines:	Single Line	145,466	151,497
	Multiline/Other Than Payphone	2,677,605	2,799,836
	Payphone Lines	88,614	99,305
Residential Switched Access Lines:	Lifeline	263,473	276,013
	Non Lifeline/Primary	3,584,790	4,137,632
	Non-Lifeline - Non-Primary	422,640	496,203
Total Switched Access Lines		7,182,588	7,960,486
Special Access Lines (Non-Switched):	Analog (4kHz or Equiv)	25,765	27,279
	Digital (64kbps or Equiv)	39,615,573	35,005,428
Total Access Lines (Switched and Special)		46,823,926	42,993,193
Local Private Lines		595,918	592,305

(FCC Statistics of Common Carriers, for the Year Ending December, 31, 2007)

8.2 FCC's Special Access investigation

In 2015, the FCC found that special access is now a $40 billion market, but has started an investigation, which includes Verizon.[36] According to the FCC, 60% of this $40 billion is for 'mostly' copper-based services that rely on the existing technology, (TDM).

> "TDM-based business data services… are the dedicated (usually copper) circuits that many business and other institutional users continue to rely on for their data and other communications needs… Despite the growth of newer technologies, preliminary analysis of the Commission's special access data collection shows that revenues from such TDM services continue to make up in the range of sixty percent of the roughly $40 billion annual special access market."

In the Verizon New York financial accounting, special access revenues would fall under "Access Fee and Special Access" financial bucket.

However, this brings up a question — how many copper lines are in service? According to this last accounting by the FCC, it would appear that one thing is true — Special Access lines had major gains and Access in 2014 was by far the largest revenue producer.

Moreover, Special Access is just one of many types of access lines in service that are not part of Verizon's published accounting of "access lines". Thus, Verizon's use of just the

[36] http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db1016/DA-15-1194A1.pdf

'POTS' phone line accounting as the only information supplied about lines in service, seriously manipulates this information.

8.3 Verizon NY Access Lines, POTS & Special Access, 2007-2014

In a separate report we examine the access line accounting and special access services using the New York revenue information for special access.

By 2014, according to Verizon there were only 2.7 million access lines but the special access lines would top 65 million total lines – a 65% increase in lines since 2007.

Verizon's regular phone service lines, were only 18.1% of the total lines according to the FCC, 2007 but that dropped so that by 2014, POTS is only 4.1% of the total lines.

EXHIBIT 28

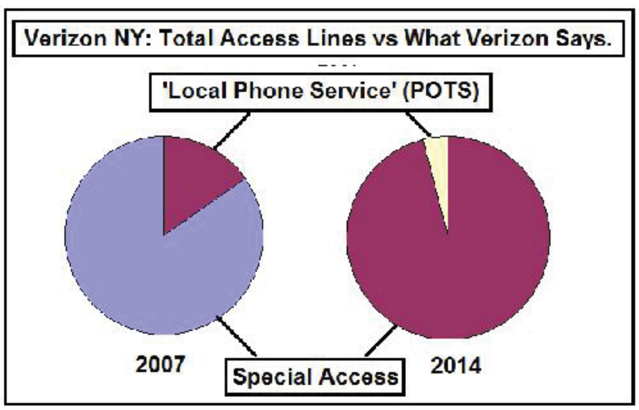

EXHIBIT 29
Verizon NY Access Lines, POTS & Special Access, Based on FCC Calculations 2007-2014

	2007	2014	Change
Special Access	39,615,000	65,326,294	64.9%
POTS Access	7,182,588	2,700,000	-62.4%
Percent of Total	18.1%	4.1%	

Sources: Verizon NY, FCC, New Networks Institute

Moreover, this shows a massive increase of lines, including the special access TDM lines, that 'mostly' rely on the copper networks.